

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Royal Bancshares of Pennsylvania

Point of Contact:	Robert Kuehl, CFO	RSSD: (For Bank Holding Companies)	2324429
UST Sequence Number:	512	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	30,407,000	FDIC Certificate Number: (For Depository Institutions)	18962
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	February 20, 2009	City:	Narberth
Date Repaid ¹ :	N/A	State:	Pennsylvania

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

Loans declined from \$689 million at 12/31/09 to \$527 million at 12/31/10 due to pay downs of existing loans, charge-offs, transfers to OREO of \$16.8 million and \$63.5 million reduction related to the sale of Royal Asian Bank. TARP funds provided capital to facilitate lending in our geographic market

☒ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

The \$11.7 million of new loans was comprised of \$3.4 million in small business lending and \$8.3 million in commercial lending. Without the TARP capital, most of this lending would not have occurred during 2010.

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☐ Increase securities purchased (ABS, MBS, etc.).

☐ Make other investments.

☐ Increase reserves for non-performing assets.

☒ Reduce borrowings.

The increased liquidity provided by the TARP capital contributed to the Company's ability to reduce FHLB borrowings by \$98.8 million during 2010.

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☒ **Increase charge-offs.**

During 2010 the Company recorded \$31.7 million in charge-offs, of which \$11.4 million was the mark to market of loans included in a potential asset sale. The charge-offs were primarily associated with construction, commercial real estate and land development loans.

☐ **Purchase another financial institution or purchase assets from another financial institution.**

☐ **Held as non-leveraged increase to total capital.**

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

The capital received from the Treasury's TARP Capital Purchase Program enabled the Company to absorb additional losses of \$24.1 million related to the provision for loan losses attributed to charge-offs and reserves set aside at year end 2010 for classified assets held for sale, prevented the Company from suspending lending, allowed the Company to maintain a strong liquidity position, and avoided capital ratios from falling below consent order requirements and well-capitalized levels. At year end 2010 the Company's and Royal Bank America's Tier 1 capital ratios were 9.68% and 8.03%, respectively, while the Company's and Royal Bank America's total risk-based capital ratios were 17.21% and 13.76%, respectively. The additional capital enabled the Company to avoid the curtailment of small business lending and commercial lending throughout 2010, which resulted in \$11.4 million of new loans during the year. Without the TARP funds the lending initiatives throughout 2010 would have been severely curtailed.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

The capital received from the Treasury's TARP Capital Purchase Program enabled the Company to absorb additional losses, mainly through loan impairment and charge-offs, maintain higher than normal liquidity ratios, change the mix of the investment portfolio, and continue to provide small business lending within the geographic footprint. The Company was able to continue the restructuring of the investment portfolio with minimal losses in 2010 while eliminating most of the remaining credit risk within the portfolio. It also provided the opportunity to provide sufficient collateral to the FHLB despite the full collateral delivery status and reduce reliance on brokered certificates of deposit and FHLB advances. In addition, the Company was able to retain almost all of the maturing retail certificates of deposit and maintain a stable retail deposit base throughout 2010. During 2010 the Company was able to reduce brokered deposits by \$117.9 million and FHLB borrowings by \$98.8 million which contributed to the improved net interest margin (2.89% in 2010 versus 2.39% in 2009). Throughout 2010 liquidity as a percent of deposits and as a percent of liabilities were generally 30% or more and 20% or more, respectively, versus policy levels of 12% and 10%, respectively. U.S. government agency securities have increased from 77% of the investment portfolio at the beginning of 2010 to 87% by the end of the year, which has contributed to enhanced liquidity, reduced risk-weighting within the investment portfolio and continued reduction of credit risk. As noted, the TARP funds have provided the opportunity to absorb additional losses, address credit quality issues, eliminate risky business segments, facilitate the sale of Royal Asian Bank and reduce the Company's risk profile. The ability to implement these initiatives would have been extremely difficult without the benefit of the TARP funds. As a result, the Company will be in a better position in the near future to transition more towards a traditional community banking focus.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.